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TAGS: [ECON](#) [ETRD](#) [TW](#)

SUBJECT: TAIWAN REACTIONS TO CHINA/ASEAN FTA

1. Summary: Reactions in Taiwan to the announcement of a Free Trade Agreement (FTA) between China and the Association of Southeast Asian Nations (ASEAN) ranged from dire predictions of imminent isolation to suggestions that the immediate impact on Taiwan's economy will be minimal. Most analysts, business associations, and officials view the China/ASEAN FTA primarily as a political move by China to increase its influence in Asia and isolate Taiwan. Although the economic impact may be minimal in the near term, there is a shared concern that the agreement represents a trend towards regional integration that is excluding Taiwan and could eventually lead to the economic marginalization of the island. End Summary.
2. Taiwan government officials had varying responses to the China/ASEAN FTA. Ministry of Foreign Affairs (MOFA) spokesman Michel Lu accused China and ASEAN of seeking to exclude Taiwan from trade in east Asia and promised that MOFA would try to find a way to participate in the proposed East Asian Summit in 2005. But Chieh Wen-chi, MOFA's Deputy Director of International Organizations cautioned that the agreement should be carefully studied to determine whether it would exclude Taiwan from the ASEAN market before drawing any conclusions. Chieh noted that all FTAs must comply with WTO requirements and that Taiwan's chief exports already benefit from low tariffs globally.
3. Minister of Economic Affairs Ho Mei-yueh announced December 13 that MOEA was studying the impact on Taiwan of the China/ASEAN FTA and recommended Taiwan companies minimize the impact of the agreement by promoting industrial upgrading and globalization. She suggested that absent FTAs with regional trading partners, Taiwan would need to focus its efforts on protecting its access to the ASEAN market through the World Trade Organization (WTO) framework. Deputy Minister Steve Chen claimed the China/ASEAN FTA would have little effect on Taiwan's economy in the near term, but warned that Taiwan would face ever stiffer competition in ASEAN once the FTA is actually in place, a process that could take years. Chen also noted that Taiwan investors already in China or ASEAN countries would benefit from improved access to the markets of the other FTA members.
4. Economic analysts minimized the immediate economic impact on Taiwan, noting that China's motivation for participation in the FTA appeared to be mostly political. According to Taiwan Institute for Economic Research (TIER) Vice President David Hong, the China/ASEAN FTA will have a small negative impact on Taiwan's economy in the near term. Hong predicted 2005 GDP growth could be slowed by .05% as a result of the agreement. Labor intensive production in Taiwan would suffer, while exports of capital intensive products and natural resources could see a small benefit. Hong added that the FTA would increase the pressure for Taiwan to negotiate bilateral agreements and improve competitiveness to counter the perception that Taiwan was being isolated in Asia.
5. Academia Sinica Director of American and European Studies Lin Cheng-yi sees China focusing on closer relations with ASEAN to combat perceived US dominance of the region. He noted that Chinese Premier Wen Jiabao made ten concrete recommendations on steps to improve China/ASEAN ties at the recent APEC Summit, including making 2006 a year of China/ASEAN cooperation, promoting inter-ministerial dialogue, backing an East Asian Summit to be held in Malaysia, and creating an East Asian Trade Area with a prominent role for ASEAN. Although Taiwan investment in ASEAN countries is greater than Chinese investment in the region, trade between China and ASEAN, almost US\$100 billion per year and growing rapidly, is about three times Taiwan/ASEAN trade. This rapid growth in trade flows has given China greater influence in the region when compared to Taiwan. Lin also pointed out that Taiwan has not placed much emphasis on improving economic ties with Southeast Asia, instead focusing on improving relations with Japan and the US. This emphasis will make it difficult for Taiwan to counter China's growing economic influence in Southeast Asia and make it more imperative for Taiwan to build stronger trade ties to Japan and the US.
6. Vice Chairman Tsai Hong-ming, of the Chinese National Federation of Industries (CNFI), one of Taiwan's leading industrial associations, believes most business people fear

the economic marginalization of Taiwan industry. But he also noted that Taiwan does not compete directly with Chinese or ASEAN products in most markets. Most products traded between ASEAN and China will not directly affect Taiwan's competitiveness, according to Tsai. Taiwan producers of more labor intensive goods may face stiffer competition, but many of these have already shifted production to China or ASEAN countries and will actually benefit from the FTA.

17. Tsai suggests that the real concern for Taiwan should be on the potential loss of competitiveness resulting from lack of regional integration and the growing cross-Strait imbalance of trade. Taiwan's ability to attract investment may suffer from the perception that Taiwan is disadvantaged in regional trade. However, he also noted that the ASEAN countries will have many reservations in the actual implementation of the FTA and that the actual effects on regional trade are likely to be delayed.

18. Comment: Most observers in Taiwan are concerned about the potential for marginalization of Taiwan's economy in the region. The China/ASEAN FTA is a potent symbol of a trend towards regional economic integration that is excluding Taiwan. But in the near term, the effect of this FTA on Taiwan's economy appears to be small. Taiwan economic officials continue to believe Taiwan's economic development is best served by creating an environment friendly to investment and development of value-added production. But they also are concerned that Taiwan's competitiveness will suffer if it continues to be excluded from regional economic arrangements. End Summary.  
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